

Legislative Audit Division

State of Montana



Report to the Legislature

November 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Office of the Governor and Lieutenant Governor

**We issued an unqualified opinion on the financial schedules of the office.
Our report contains three recommendations relating to:**

- **Establishing procedures over emergency appropriation allocations.**
- **Establishing controls over revolving fund checking accounts.**
- **Properly classifying of revenue and transfers on the financial schedules.**

**Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

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John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor for the two fiscal years ended June 30, 1996. We issued an unqualified opinion on the financial schedules of the office. Our report contains three recommendations regarding emergency appropriation allocations, controls over the Governor's revolving fund checking accounts, and proper classification of revenue on the financial schedules. The office's response is contained at the end of the report.

We thank the Governor, Lieutenant Governor, and their staffs for their assistance and cooperation.

Respectfully submitted,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Office of the Governor and Lieutenant Governor

Members of the audit staff involved in this audit were Laurie Evans, Wayne Guazzo, Susan McEachern, and Paul J. O'Loughlin.

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Elected and Administrative Officials

Office of the Governor and Lieutenant Governor

Governor
Chief of Staff

Marc Racicot
Judy Browning

Lieutenant Governor
Chief of Staff

Dennis Rehberg
Betti Hill

Centralized Services Administrator

Mary Jo Murray

Report Summary

Office of the Governor and Lieutenant Governor

This financial-compliance audit report contains the results of our audit of the Office of the Governor and Lieutenant Governor for the two fiscal years ended June 30, 1996. The prior audit report contained one recommendation directed to the office, and it was fully implemented. We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the financial information presented and the supporting data on the Statewide Budgeting and Accounting System.

This report contains three recommendations. The recommendations relate to:

1. Establishing procedures to monitor the Governor's emergency appropriation to ensure its statutory limit is not exceeded.
2. Establishing controls over contingent revolving fund checking accounts.
3. Properly classifying revenue and transfers on the state's accounting records in accordance with state accounting policy and law.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the office establish procedures to ensure the allocation of emergency appropriations do not exceed the statutory limit.	6
	<u>Agency Response:</u> Concur. See page B-3.	
<u>Recommendation #2</u>	We recommend the office establish and enforce appropriate controls over its revolving cash checking accounts.	8
	<u>Agency Response:</u> Concur. See page B-3.	
<u>Recommendation #3</u>	We recommend the office use available resources to ensure transfer and revenue transactions are properly recorded in accordance with state accounting policy and law.	10
	<u>Agency Response:</u> Concur. See page B-3.	

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (the office) for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine if the office complied with applicable federal and state laws and regulations.
2. Recommend improvements in the internal and management controls of the office.
3. Determine if the financial schedules present fairly the office's results of operations for the two fiscal years ended June 30, 1996.
4. Determine the implementation status of prior audit recommendations.

In accordance with section 5-13-307, MCA, we analyzed the cost to implement the recommendations and believe the cost is not significant to the office. Areas of concern regarding compliance with laws and regulations and state accounting policy deemed not to have a significant effect on the successful operations of the office's programs are not specifically included in this report, but have been discussed with management.

Background

The Governor's Office was created upon acceptance of Montana into the Union in 1889 and is provided for in Article VI of the Montana Constitution. The following paragraphs discuss the functions of the various programs administered by the Office of the Governor and Lieutenant Governor and budgeted full-time equivalent (FTE) positions for each program. The office had a total of 52.65 FTE positions budgeted for fiscal year 1995-96.

Executive Office - provides administrative, legal, and centralized services support for the Office of the Governor. The executive office oversees and directs the activities of executive branch agencies to ensure responsible and responsive government. In addition, the executive office administers special programs which impact citizens and governmental concerns. These special programs include the Flathead Basin Commission, the Montana Community

Introduction

Services Commission, and the Montana Consensus Council. (21.15 FTE)

Lieutenant Governor - performs duties prescribed by law and those delegated by the Governor. The Lieutenant Governor's Office serves as the liaison between state and local government, and assists the Governor with appointments to various boards and commissions. The office also administers the Montana Rural Development Council. (4.0 FTE)

Office of Budget and Program Planning - assists the Governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and acts as the lead executive branch agency for compliance with the federal Single Audit Act. (17.0 FTE)

Citizens' Advocate Office - provides accessibility to state government for Montana citizens by providing information to citizens and acting as a referral service to state agencies. (1.5 FTE)

Mental Disabilities Board of Visitors - comprised of a five-member board charged with the responsibility of protecting the rights of the mentally ill and the developmentally disabled. The board is also custodian of specific patient accounts at the Montana State Hospital. (4.5 FTE)

Mansion Maintenance - maintains the Governor's official residence and provides security coverage for the Governor and his family. (1.5 FTE)

Air Transportation - provides transportation for the Governor and his staff. The Governor's aircraft is available to other state agencies for a fee. Fee revenues are used for aircraft operating and maintenance costs. (1.0 FTE)

Coordinator of Indian Affairs - serves as the Governor's liaison with the state's Indian tribes, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues. (2.0 FTE)

Prior Audit Recommendation

Prior Audit Recommendation

Our prior audit report, for the two fiscal years ended June 30, 1994, contained one recommendation to the office. The office implemented the recommendation.

Findings and Recommendations

Emergency Appropriations

During the 1995 biennium, the Governor's Office had five million dollars of General Fund appropriation authority for emergencies. This statutory appropriation authority was granted under section 10-3-312, MCA. This law requires the spending authority of the emergency appropriation to be reinstated whenever money is recovered for the costs of a disaster or emergency. We found two occasions during fiscal year 1994-95 where the office allocated more than the five million dollar appropriation authority to state agencies, once during September 1994 and again in December 1994 for \$174,808 and \$195,806, respectively. The Federal Emergency Management Agency (FEMA) reimbursed the state \$3 million in October 1994 and an additional \$449,542 in February 1995 for the cost of fighting the 1994 fires.

In the autumn of 1994, the Governor declared emergencies due to the numerous fires across the state. The office allocated the emergency appropriations to cover the expenses associated with fighting the fires. An office official indicated he moved \$1 million in appropriation authority from the Department of Natural Resources and Conservation's (DNRC) budget to the Department of State Lands' budget to pay fire fighting expenditures. He thought the \$1 million appropriation transfer was sufficient to pay for expenditures. The office official was not aware that an additional allocation was made from the emergency appropriation that caused the \$5 million statutory limit to be exceeded. The official said if he had known of the over allocations the Governor may have had to call a special legislative session at a cost of \$40,000 per day to seek additional appropriation authority.

Personnel within the office indicated that since they knew the federal assistance was going to be provided to reimburse the General Fund, they were not concerned about the over allocation of the appropriation. Further, personnel indicated during the subsequent legislative session the legislature increased the governor's emergency appropriation limit by \$7 million so an over allocation in future bienniums would be less likely.

Findings and Recommendations

By allocating budget authority on the Statewide Budgeting and Accounting System (SBAS) greater than the statutory appropriation limit, the office in effect established appropriation authority which was unauthorized by the legislature.

Recommendation #1

We recommend the office establish procedures to ensure the allocation of emergency appropriations do not exceed the statutory limit.

Controls Over Checking Accounts

The office has two checking accounts, called revolving cash checking accounts, one for the miscellaneous mansion expenses and the other for miscellaneous expenses associated with the Governor's Office operations. The mansion account has a \$200 balance and the Governor's Office operations account has a \$400 balance. State policy requires the accounts to be used only for items demanding immediate payment. We examined the checking account activity for July 1994 through May 1996 for both accounts and noted the following concerns.

- State accounting policy requires that every expenditure paid through the checking account be supported by an invoice, receipt, or other documentation. We noted 27 checks (totaling \$1,212) out of 166 checks (totaling \$5,579) from the two accounts were not supported by the required invoices or receipts. The support documentation is required to record the activity on the state's accounting records, to replenish the cash balance in the accounts, and to document the propriety of the cash expenditure.
- Office policy requires checks be signed by two authorized individuals. We noted 44 checks did not have two signatures. Out of the 44 single signature checks, 38 were drawn on the mansion account. Office personnel said it is sometimes difficult to get two signatures on the mansion checks because often the purchases are made in the evenings when a second authorized signer is not available.

Findings and Recommendations

- State policy requires the office to maintain written operating procedures for the use, replenishment, and reconciliation of the accounts. Personnel indicated they developed written procedures when the accounts were first established years ago but could not find them during the audit.
- State policy requires there be a proper segregation of duties between the persons making the purchases and the individual who reimburses the checking account. In addition, the policy suggests the person assigned as the custodian of a checking account and the check signer should be different people. We noted the individual within the office functioning as the custodian of the Governor's Office operations account was purchasing supplies and postage with personal funds and then writing a check to herself to reimburse the expenses. This individual was the payee and one of the signers on 34 checks. One reimbursement to the individual was not supported by invoices or receipts.
- State policy allows the checking account to be used for providing immediate payment of unanticipated travel. We noted an occasion when the office's operations account was used to reimburse a travel expense voucher. Travel expenses which are reimbursed to employees after a travel trip should be paid using the state's normal warrant system. A state warrant will usually be mailed or available for pick-up the next day.
- State policy requires that the person who reconciles the checking account be different from the custodian and check signer and not be involved in the checking account operations. The person who has custody of the accounts also reconciles the accounts to the bank statements. On one occasion the bank notified the office that the operations account had nonsufficient funds (NSF). This occurred when the custodian of the account was on leave and no one else was assigned to monitor the account and ensure the account was replenished on a timely basis to avoid a NSF charge.

To address the concerns noted above there are a number of controls that could be implemented to improve the operation of the revolving cash checking accounts. Some examples are:

1. Segregation of duties between the individual who is the custodian of the accounts and the person(s) who sign the checks.

Findings and Recommendations

2. Periodic supervisory review of the activity processed through the accounts.
3. Segregation of duties between the custodian and individual who reconciles the account.
4. Periodic supervisory review of the reconciliation process.
5. Development of written policies over the operation of the accounts.
6. Establish procedures to ensure all expenditures are supported by invoices or receipts.
7. Ensure the checks are approved by an appropriate authorized individual.

The above list of controls is not inclusive. Although we found no indication of inappropriate expenditures, office personnel should consider putting together an efficient, yet cost effective combination of controls that the office's management believe will sufficiently reduce risks over the revolving cash checking accounts operations.

Recommendation #2

We recommend the office establish and enforce appropriate controls over its revolving cash checking accounts.

Accounting for Transfers and Revenue

Office personnel, budget analysts, and the legislature use the office's financial information to manage and establish funding levels for the office. Section 17-1-102 (5), MCA, states, " all state agencies. . . shall input. . . transactions to the accounting system. . . in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. . ." The Montana Operations manual sets forth specific state accounting policies to ensure financial information is recorded in conformity with this law. We noted the following instances where transactions recorded on the

Findings and Recommendations

accounting records did not comply with state law and accounting policies.

- Revenue received from federal sources should be classified on SBAS as "Federal Assistance" rather than as "Grants, Contracts, and Donations." The grants received from federal sources for the Flathead Basin Commission were not recorded as coming from a federal source due to an oversight by office personnel. Therefore, the revenue classification of "Grants, Contracts and Donations" is overstated and the "Federal Assistance" classification is understated on SBAS in the Special Revenue Fund by \$65,841 and \$50,236 for fiscal years 1994-95 and 1995-96, respectively.
- Moneys amounting to \$74,500, transferred to the office from other state departments, should have been classified as a "Transfer-In" rather than "Miscellaneous" revenue in the Special Revenue Fund. This money will be used by the office to establish a new computerized budget system. State policy requires the funds provided from other state sources be recorded as a transfer on SBAS. Office personnel stated that in order to collect the money as a transfer, the state agencies would need to obtain transfer authority by submitting additional paperwork to the Office of Budget and Program Planning (OBPP). Since OBPP asked state agencies to help fund the costs of the new budget system, it did not want to require agencies to submit additional paperwork.
- Office personnel recorded a receivable from a state agency but overlooked a payment which had been received and recorded as revenue at the end of the fiscal year. Consequently revenue and accounts receivable in the Special Revenue Fund are overstated on the accounting records by \$10,000 for fiscal year 1995-96.
- State accounting policy requires federal accounting entities to have a zero fund balance at fiscal year-end. We noted two accounting errors related to recording transfers and revenue during fiscal year-end 1994-95 that caused a federal accounting entity to have a negative ending fund balance of \$763,663.

Three of the four concerns noted above relate to transactions recorded during the fiscal year-end period. Accounting personnel in the office indicated this is a very hectic time and sometimes transactions get recorded incorrectly due to time constraints. We believe the office can improve its procedures to ensure financial

Findings and Recommendations

activity is recorded in accordance with state law and state accounting policy by planning for the fiscal year-end period and using available resources such as the Montana Operations Manual year-end memorandum.

Recommendation #3

We recommend the office use available resources to ensure transfer and revenue transactions are properly recorded in accordance with state accounting policy and law.

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of the Governor and Lieutenant Governor for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-15. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Governor and Lieutenant Governor for each of the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

August 23, 1996

OFFICE OF THE GOVERNOR & LIEUTENANT GOVERNOR
SCHEDULE OF CHANGES IN FUND BALANCES AND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Agency Fund
FUND BALANCE: July 1, 1994	\$ 0	\$ 783,285	
PROPERTY HELD IN TRUST: July 1, 1994			\$ 49,613
ADDITIONS			
<u>Fiscal Year 1994-95</u>			
Budgeted Revenues & Transfers In	5,457	1,567,647	
Prior Year Expenditures Adjustments	746		
Support From State of Montana	2,257,412		
Increases to Property Held in Trust			308,247
<u>Fiscal Year 1995-96</u>			
Budgeted Revenues & Transfers In	4,130	449,385	
Nonbudgeted Revenues & Transfers In		37,568	
Cash Transfers In		990,985	
Prior Year Revenues Adjustments		4,714	
Prior Year Expenditures Adjustments	3,956		
Prior Year Expenditures		330	
Direct Entries to Fund Balance	171		
Support From State of Montana	2,544,408		
Increases to Property Held in Trust			318,755
Total Additions	<u>4,816,280</u>	<u>3,050,629</u>	<u>627,002</u>
REDUCTIONS			
<u>Fiscal Year 1994-95</u>			
Budgeted Expenditures & Transfers Out	2,263,615	1,783,905 ¹	
Prior Year Expenditures		1,881	
Prior Year Expenditure Adjustments		879	
Cash Transfers Out		854,262	
Direct Entries to Fund Balance		166	
Prior Year Revenue Adjustments		86	
Decreases to Property Held in Trust			305,082
<u>Fiscal Year 1995-96</u>			
Budgeted Expenditures & Transfers Out	2,552,665	388,260 ¹	
Nonbudgeted Expenditures and Transfers Out		19,114	
Prior Year Expenditure Adjustments		4,789	
Decreases to Property Held in Trust			309,858
Total Reductions	<u>4,816,280</u>	<u>3,053,342</u>	<u>614,940</u>
FUND BALANCE: June 30, 1996	<u>\$ 0</u>	<u>\$ 780,572</u>	
PROPERTY HELD IN TRUST: June 30, 1996			<u>\$ 61,675</u>

¹ See note 5 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

OFFICE OF THE GOVERNOR & LIEUTENANT GOVERNOR
SCHEDULE OF TOTAL REVENUES, TRANSFERS IN & OTHER ADDITIONS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Total
<u>Fiscal Year 1994-95</u>			
TOTAL REVENUES BY CLASS			
Charges for Services	\$ 996	\$ 119,626	\$ 120,622
Federal Indirect Cost Recoveries		5,344	5,344
Sale of Documents and Merchandise	4,392		4,392
Miscellaneous	69		69
Grants, Contracts & Donations		139,790	139,790
Other Financing Sources		63,917	63,917
Federal		1,238,884 ¹	1,238,884
Total Revenues	<u>5,457</u>	<u>1,567,561</u>	<u>1,573,018</u>
Less: Prior-Year Revenue Adjustments		(86)	(86)
Actual Budgeted Revenues	<u>5,457</u>	<u>1,567,647</u>	<u>1,573,104</u>
Estimated Revenues	<u>10,100</u>	<u>1,720,514</u>	<u>1,730,614</u>
Budgeted Revenues Over(Under) Estimated	\$ <u>(4,643)</u>	\$ <u>(152,867)</u>	\$ <u>(157,510)</u>
 BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS			
Charges for Services	\$ (4,004)	\$ (18,788)	\$ (22,792)
Federal Indirect Cost Recoveries		(9,113)	(9,113)
Sale of Documents and Merchandise	(608)		(608)
Miscellaneous	(31)		(31)
Grants, Contracts & Donations		1,171	1,171
Federal		(126,137)	(126,137)
Budgeted Revenues Over(Under) Estimated	\$ <u>(4,643)</u>	\$ <u>(152,868)</u>	\$ <u>(157,510)</u>
 <u>Fiscal Year 1995-96</u>			
TOTAL REVENUES BY CLASS			
Charges for Services		\$ 96,623	\$ 96,623
Sale of Documents and Merchandise	\$ 3,958		3,958
Miscellaneous	172	84,500	84,672
Grants, Contracts & Donations		185,522	185,522
Other Financing Sources		11,500	11,500
Federal		113,522	113,522
Total Revenues	<u>4,130</u>	<u>491,667</u>	<u>495,797</u>
Less: Nonbudgeted Revenue		37,568	37,568
Prior-Year Revenue Adjustments		4,714	4,714
Actual Budgeted Revenues	<u>4,130</u>	<u>449,385</u>	<u>453,515</u>

Estimated Revenues	4,100	778,261	782,361
Budgeted Revenues Over(Under) Estimated	\$ 30	\$ (328,876)	\$ (328,846)
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS			
Charges for Services	\$ (1,000)	\$ (44,394)	\$ (45,394)
Federal Indirect Cost Recoveries		(15,188)	(15,188)
Sale of Documents and Merchandise	958		958
Miscellaneous	72		72
Grants, Contracts & Donations		(168,711)	(168,711)
Other Financing Sources		(90,000)	(90,000)
Federal		(10,583)	(10,583)
Budgeted Revenues Over(Under) Estimated	\$ 30	\$ (328,876)	\$ (328,846)

1 See note 5 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

OFFICE OF THE GOVERNOR & LIEUTENANT GOVERNOR
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS OUT & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Executive Office Program	Mansion Maintenance Program	Air Transportation Program	Office of Budget & Program Planning	Indian Affairs Program	Lieutenant Governor Program	Citizens' Advocate Office Program	Mental Disabilities Board of Visitors Program	Total
PROGRAM EXPENDITURES BY OBJECT									
Personal Services									
Salaries	\$ 642,265	\$ 29,487	\$ 32,453	\$ 578,522	\$ 32,860	\$ 154,352	\$ 46,332	\$ 101,933	\$ 1,618,204
Employee Benefits	141,451	7,072	5,194	134,432	7,642	33,037	12,435	26,089	367,352
Total	<u>783,716</u>	<u>36,559</u>	<u>37,647</u>	<u>712,954</u>	<u>40,502</u>	<u>187,389</u>	<u>58,767</u>	<u>128,022</u>	<u>1,985,556</u>
Operating Expenses									
Services	174,503	1,908	6,780	103,997	842	8,550	1,257	11,231	309,068
Supplies & Materials	43,724	24,699	37,708	23,778	1,259	6,478	35	10,012	147,693
Communications	45,355	480	404	10,252	3,140	12,948	11,891	5,010	89,480
Travel	23,639		2,022	8,619	1,608	25,111		10,271	71,270
Rent	43,656	69		27,324	5,664	8,714		2,280	87,707
Repair & Maintenance	18,792	14,682	53,384	3,522	1,933	6,857		3,379	102,549
Other Expenses	38,407	762	492	30,314	1,277	7,135	169	3,200	81,756
Total	<u>388,076</u>	<u>42,600</u>	<u>100,790</u>	<u>207,806</u>	<u>15,723</u>	<u>75,793</u>	<u>13,352</u>	<u>45,383</u>	<u>889,523</u>
Equipment and Intangible Assets									
Equipment	44,443	11,138	2,645	17,250		8,323		1,995	85,794
Total	<u>44,443</u>	<u>11,138</u>	<u>2,645</u>	<u>17,250</u>		<u>8,323</u>		<u>1,995</u>	<u>85,794</u>
Total Program Expenditures	<u>\$ 1,216,235</u>	<u>\$ 90,297</u>	<u>\$ 141,082</u>	<u>\$ 938,010</u>	<u>\$ 56,225</u>	<u>\$ 271,505</u>	<u>\$ 72,119</u>	<u>\$ 175,400</u>	<u>\$ 2,960,873</u>
PROGRAM EXPENDITURES BY FUND									
General Fund	\$ 988,489	\$ 89,026	\$ 126,082	\$ 913,010	\$ 56,225	\$ 167,402	\$ 56,867	\$ 151,609	\$ 2,548,710
Special Revenue Fund	227,746	1,271	15,000	25,000		104,103	15,252	23,791	412,163
Total Program Expenditures	<u>1,216,235</u>	<u>90,297</u>	<u>141,082</u>	<u>938,010</u>	<u>56,225</u>	<u>271,505</u>	<u>72,119</u>	<u>175,400</u>	<u>2,960,873</u>
Less: Nonbudgeted Expenditures	17,843	1,271							19,114
Prior-Year Expenditure Adjustments	3,150	42	(3,398)	675		67		296	832
Actual Budgeted Expenditures	<u>1,195,242</u>	<u>88,984</u>	<u>144,480</u>	<u>937,335</u>	<u>56,225</u>	<u>271,438</u>	<u>72,119</u>	<u>175,104</u>	<u>2,940,927</u>
Budget Authority	1,508,223	98,608	147,026	952,238	107,420	298,167	77,335	215,060	3,404,077

Unspent Budget Authority	\$ <u>312,981</u>	\$ <u>9,624</u>	\$ <u>2,546</u>	\$ <u>14,903</u>	\$ <u>51,195</u>	\$ <u>26,729</u>	\$ <u>5,216</u>	\$ <u>39,956</u>	\$ <u>463,150</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund	\$ 46,653	\$ 9,624	\$ 2,546	\$ 14,903	\$ 37,905	\$ 16,019	\$ 5,216	\$ 756	\$ 133,622
Special Revenue Fund	266,328				13,290	10,710		39,200	329,528
Unspent Budget Authority	\$ <u>312,981</u>	\$ <u>9,624</u>	\$ <u>2,546</u>	\$ <u>14,903</u>	\$ <u>51,195</u>	\$ <u>26,729</u>	\$ <u>5,216</u>	\$ <u>39,956</u>	\$ <u>463,150</u>

¹ See note 6 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

OFFICE OF THE GOVERNOR & LIEUTENANT GOVERNOR
SCHEDULE OF TOTAL PROGRAM EXPENDITURES, TRANSFERS OUT & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Executive Office Program	Mansion Maintenance Program	Air Transportation Program	Office of Budget & Program Planning	¹ Northwest Regional Power Act Program	Lieutenant Governor Program	Citizens' Advocate Office Program	Mental Disabilities Board of Visitors Program	Total
PROGRAM EXPENDITURES BY OBJECT									
Personal Services									
Salaries	\$ 636,363	\$ 25,663	\$ 28,714	\$ 571,893		\$ 195,967	\$ 44,983	\$ 133,344	\$ 1,636,927
Employee Benefits	144,188	6,819	5,399	132,536		42,120	12,586	34,640	378,288
Total	<u>780,551</u>	<u>32,482</u>	<u>34,113</u>	<u>704,429</u>		<u>238,087</u>	<u>57,569</u>	<u>167,984</u>	<u>2,015,215</u>
Operating Expenses									
Services	1,078,934 ²	2,198	5,053	55,651		26,659	1,301	4,459	1,174,255
Supplies & Materials	33,507	11,900	34,358	5,425		6,303	107	2,127	93,727
Communications	50,893	431	1,670	8,786		16,050	12,572	3,961	94,363
Travel	42,149		16,089	4,288		33,549		6,193	102,268
Rent	38,400	52		22,930		5,999		1,872	69,253
Repair & Maintenance	9,583	519	65,875	4,198		4,492	182	1,451	86,300
Other Expenses	47,043	878	4,731	16,008		9,180	184	1,965	79,989
Total	<u>1,300,509</u>	<u>15,978</u>	<u>127,776</u>	<u>117,286</u>		<u>102,232</u>	<u>14,346</u>	<u>22,028</u>	<u>1,700,155</u>
Equipment and Intangible Assets									
Equipment	48,607	330	500	450		15,831	200	4,988	70,906
Intangible Assets	701								701
Total	<u>49,308</u>	<u>330</u>	<u>500</u>	<u>450</u>		<u>15,831</u>	<u>200</u>	<u>4,988</u>	<u>71,607</u>
Grants									
From State Sources	260,675								260,675
Total	<u>260,675</u>								<u>260,675</u>
Total Program Expenditures	<u>\$ 2,391,043</u>	<u>\$ 48,790</u>	<u>\$ 162,389</u>	<u>\$ 822,165</u>	<u>\$ 0</u>	<u>356,150</u>	<u>72,115</u>	<u>195,000</u>	<u>4,047,652</u>
PROGRAM EXPENDITURES BY FUND									
General Fund	\$ 887,291	\$ 48,790	\$ 138,373	\$ 822,165		167,312	57,910	141,027	2,262,868
Special Revenue Fund	1,503,752		24,016			188,838	14,205	53,973	1,784,784
Total Program Expenditures	<u>2,391,043</u>	<u>48,790</u>	<u>162,389</u>	<u>822,165</u>		<u>356,150</u>	<u>72,115</u>	<u>195,000</u>	<u>4,047,652</u>
Less: Non-Budgeted Expenditure Adjustments	(155)	0	(1,080)	380	0	755	1	231	132
Actual Budgeted Expenditures	<u>2,391,198</u>	<u>48,790</u>	<u>163,469</u>	<u>821,785</u>		<u>355,395</u>	<u>72,114</u>	<u>194,769</u>	<u>4,047,520</u>

Budget Authority	3,197,335	50,687	192,621	830,006	5,560	428,565	73,187	198,025	4,975,986
Unspent Budget Authority	<u>\$ 806,137</u>	<u>\$ 1,897</u>	<u>\$ 29,152</u>	<u>\$ 8,221</u>	<u>\$ 5,560</u>	<u>\$ 73,170</u>	<u>\$ 1,073</u>	<u>\$ 3,256</u>	<u>\$ 928,466</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 5,956	\$ 1,897	\$ 11,168	\$ 8,221		\$ 11,085		\$ 1,302	\$ 39,629
Special Revenue Fund	800,181		17,984		\$ 5,560	62,085	\$ 1,073	1,954	888,837
Unspent Budget Authority	<u>\$ 806,137</u>	<u>\$ 1,897</u>	<u>\$ 29,152</u>	<u>\$ 8,221</u>	<u>\$ 5,560</u>	<u>\$ 73,170</u>	<u>\$ 1,073</u>	<u>\$ 3,256</u>	<u>\$ 928,466</u>

1 See note 6 on page A-15.
2 See note 5 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable.

State accounting policy also requires the office to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule presentation is in accordance with the policy of the Legislative Audit Committee. For audit reports issued after July 1, 1996, the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The schedules now include nonbudgeted revenue and expenditure activity and prior year revenue and expenditure adjustments for all financial schedules presented. In addition, financial activity for agency funds, if any, is included in the Schedule of Changes in Fund Balance and Property Held in Trust.

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment, except for agency funds which are adjusted to reflect the additions and reductions to property held in trust. Accounts are organized in funds according to state law. The office uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Office Special Revenue Funds include recording activity associated with the Flathead Basin Commission, Montana Consensus Council, Montana Rural Development Council, and the Mental Disabilities Board of Visitors, as well as, collecting fees from other state agencies for use of the governor's aircraft.

Fiduciary Fund

Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The office's Mental Disabilities Board of Visitors maintains an Agency Fund for some patient accounts at the Montana State Hospital.

- | | | |
|-----------|------------------------------|--|
| 2. | Annual and Sick Leave | Employees at the office accumulate both annual and sick leave. The office pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The office absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995 and at June 30, 1996, the office had a liability of \$337,976 and \$359,508, respectively. |
| 3. | Pension Plan | Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contribution to PERS was \$100,021 in fiscal year 1994-95 and \$99,644 in fiscal year 1995-96. |
| 4. | General Fund Balance | The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero. |

Notes to the Financial Schedules

5. **Changes in Federal Revenues, Expenditures and Cash Transfers**
- General administration and support of the federal community services grant was transferred to the Montana Department of Labor and Industry beginning in fiscal year 1995-96, resulting in a decrease of approximately \$1 million of federal revenues and expenditures to the office. The majority of the grant expenditures were spent for contracts to community service organizations. The transfer of the Montana Community Services grant activity also accounts for the majority of the cash transfers recorded on the financial schedules.
6. **Program Changes**
- The Northwest Power Planning Council's central office took over the funding and accounting of the Montana council office operations beginning June 30, 1993. A small portion of budget authority remained in the Northwest Regional Power Act Program during fiscal year 1994-95. The state's involvement with the council continues. The Governor will set the salary level for the Montana members, and the members will continue to serve at the Governor's pleasure.
- The Coordinator of Indian Affairs program was transferred to the office from the Department of Commerce in fiscal year 1995-96. The coordinator serves as the Governor's liaison with the state's Indian tribes, provides information and policy support on issues confronting the Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues.
7. **Litigation**
- The Crow Tribe is seeking damages against various defendants, including the Governor, in conjunction with the termination of the tribe's gaming compact. The outcome of the lawsuit is uncertain and the potential liability for damages can not be reasonably estimated.

Agency Response

OFFICE OF THE GOVERNOR
STATE OF MONTANA

MARC RACICOT
GOVERNOR



STATE CAPITOL
HELENA, MONTANA 59620-0801

October 31, 1996

Mr. Scott A. Seacat, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol Building
P.O. Box 201705
Helena MT 59620-1705

NOV - 1 1996

Dear Mr. Seacat:

Following are our responses to the recommendations contained in your audit of the Office of the Governor and Lieutenant governor for the two fiscal years ending June 30, 1996.

1. *Recommendation:* We recommend the office establish procedures to ensure the allocation of emergency appropriations do not exceed the statutory limit.

Response: We concur with the recommendation.

2. *Recommendation:* We recommend the office establish and enforce appropriate controls over its revolving cash checking accounts.

Response: We concur with the recommendation. Staff have already redeveloped written policies regarding use of these accounts and are working with account users to address the problems pointed out during the audit. Duties have been segregated as much as possible, given the small staff size.

3. *Recommendation:* We recommend the office use available resources to ensure transfer and revenue transactions are properly recorded in accordance with state accounting policy and law.

Response: We concur with the recommendation. We will review our fiscal year end procedures and attempt to allocate available resources more wisely during that time.

Sincerely,

A handwritten signature in cursive script that reads "Judy Browning".

JUDY BROWNING
Chief of Staff